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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 000064

SIPDIS

STATE FOR NEA/ARPI, EB
COMMERCE FOR ITA/MAC/ONE LOUSTAUNAU AND HOFFMAN

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TAGS: [PREL](#) [ENRG](#) [EPET](#) [BA](#)

SUBJECT: BAHRAINI MINISTER OF OIL AND AMBASSADOR DISCUSS
PETROLEUM SECTOR

REF: A. MANAMA 00024

[1](#)B. 04 MANAMA 01422

Classified By: Ambassador William T. Monroe for reasons
1.4 (b) and (d).

[1](#)1. (C) The Ambassador met with Oil Minister Shaikh Isa Bin Ali Al Khalifa on January 11 to discuss developments in the petroleum industry. The Minister opened the meeting by commenting on press speculations that he will lose his job in an impending cabinet shuffle. He asserted he would still be Bahrain's "oil man" and dismissed reports that the Ministry of Oil would be merged with the Ministry of Electricity and Water.

Abu Sa'afa Oil Field Expansion

[1](#)2. (C) Turning to the issue of oil and recent squabbles with Saudi Arabia, the Ambassador inquired about the status of Saudi Arabia's oil grants to Bahrain. The Minister noted that the situation was ironic: Bahrain had invested \$700 million to double production of the Abu Sa'afa field only to receive a lower quantity of oil. (NOTE: Bahrain and Saudi Arabia inaugurated the Abu Sa'afa oil field expansion on December 26, 2004. Overall production increased from 150 thousand barrels per day (bpd) to 300 thousand bpd. Prior to the expansion, Bahrain received its share of 75 thousand bpd, Saudi Arabia's share of 75 thousand bpd, and an additional grant against Bahrain's reserves of 50 thousand bpd for a total of 200 thousand bpd. According to King Hamad (ref A), although Bahrain invested \$700 million in the expansion, it is now receiving only its share of Abu Sa'afa production -- 150 thousand bpd. Saudi Arabia is not granting Bahrain any of its share of Abu Sa'afa and Saudi Arabia suspended the grant of 50 thousand bpd in July 2004. END NOTE). The Minister said higher international oil prices would help offset the lower quantity Bahrain receives. He also told the Ambassador that despite the disappointment, Saudi Arabia is always very supportive and close to Bahrain.

Natural Gas

[1](#)3. (C) The Ambassador asked for an update on the project to run a natural gas pipeline from Qatar to Bahrain and on to Kuwait. The Minister said that in principle Qatar is ready to go and he recently signed an agreement of intent with the GOQ on the project. However, Qatar appears to be in no rush to work out pricing, and Saudi Arabia has still not approved the Bahrain-to-Kuwait portion of the pipeline, which would traverse Saudi territorial waters. The Ambassador asked when Bahrain will have a gas shortage problem. The Minister responded by saying, "now." He said the GOB already had to cancel the deal between U.S.-firm ALCOA and Bahrain's aluminum manufacturer (ALBA) to develop a sixth production line because of a lack of gas. The Minister said the Crown Prince is heading a committee to discuss the gas shortage. The Ambassador asked what was stopping Qatar from proceeding with the pipeline to Bahrain. The Minister responded by saying, "In this part of the world there is a lot of kissing and shaking of hands, but at the end no results."

[1](#)4. (C) The Minister mentioned that Iran had offered Bahrain gas from its offshore fields, but minimized the importance of its offer, noting that unlike the proposed Qatar deal, Iran had not yet developed the field from which the gas would come. The Ambassador reaffirmed that the United States would oppose such a deal with Iran.

Upcoming Projects

[1](#)5. (C) Three projects with possible U.S. content were discussed. First on the list was a \$160 million desulfurization project. The Minister told the Ambassador that at an Oil Council meeting on January 10, the GOB invited five American companies, BP, and a Korean firm to compete for

the project. He did not say who the American companies are. The Minister said the Bahrain Petroleum Company (BAPCO) will soon start a \$440 million project to upgrade its refinery. In regard to the \$1.4 billion naptha cracker project (ref B), the Minister said BAPCO is reviewing the proposals. He stated that to be a viable joint-venture project, BAPCO must retain at least a 30 percent share, but some companies wanted a greater portion of the profits. He did not comment on the status of any American company bids.

MONROE